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# Farm/Ranch Financial Management Issues for 1990 Extension Programming

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Farm/Ranch Financial Management  
Issues for 1990 Extension Programming

by  
Cindy Snyder\*  
and  
Burton W. Pflueger

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## Note from Authors

The articles in this paper are adapted from talks and papers presented at the North Central Regional Extension Farm Management and Marketing Workshop: The New Agriculture: Enhancing Profitability and Competiveness in a changing Structure: An Evolving Role for Extension Farm Management, May 3-5, 1988, Iowa State University, Ames Iowa. These papers are presented here as a summary of, and comments on, the ideas and concepts presented at the conference that are most pertinent to extension financial and farm management programming efforts in South Dakota.

The Extension farm management staff, consisting of financial management specialist Dr. Burton Pflueger; and Area Farm Management Agents Larry Madsen (Gettysburg), Ralph Matz (Philip), Curt Hoyt (Rapid City) and Leroy Lamp (Burke) have debated these issues and will be using some of these concepts in program efforts this year. However, the intent of the conference went beyond just what can be done in South Dakota.

It is the hope of the authors that these pieces will generate discussions, provoke thoughts, and spur futuristic programming as extension moves to issues oriented programming.

## ROLE OF SMALL SCALE AGRICULTURE

Large scale, commercial farming is receiving a lot of attention lately. Almost everyone can debate its advantages and disadvantages, and what affect it will have on the agricultural sector.

However, the push to expand has not eliminated the small scale, family farm, yet. The Extension Service must remember that it is concerned not just with helping farm families manage their operations, but with the family's well being.

American agriculture is undergoing tremendous changes. Extension needs to help smaller scale producers adapt to these changes by helping make their operations more competitive, or helping them leave the farm.

A small scale farm can be defined as one where family members provide most of the labor and, if it is relying on agriculture alone for its income, can not compete in the long run.

Competitiveness for smaller producers is related to survivability, rather than production costs. To be competitive a small farm must generate enough income to support the family in the long run.

There are basically three alternatives available to small scale producers. Extension will need to help producers evaluate each and decide which is the best for them and their family.

It must become acceptable within Extension to talk to producers about off-farm work or completely changing jobs as farm management alternatives. Continuing to farm is only one option

facing small farm families.

The first alternative for the small scale producer is to quit farming and find different full-time work if he can not meet his financial obligations. Extension must realize that not all farmers will be able to continue farming.

If this option is chosen, the family will be under a lot of stress. There are two major sources of this stress; moving to a new location and finding a new job.

Staying in the same community will help reduce some stress. However, it may also cause problems by decreasing job opportunities and the family may feel some stigma, real or imagined, for quitting the farm.

The second alternative is to combine off-farm income with the farm income to meet financial obligations. Nationally, this option is exercised the most.

The 1987 Wisconsin Farm Family Survey indicated that off-farm work can supplement farm income so that total household income is comparable to fulltime farm families.

Households with off-farm income received about half their income from the farm compared to households without off-farm jobs. However, the mean total household income was not different between the two groups.

Using off-farm work to supplement income means the producer will have to make adjustments in work relative to available labor. Producers need to realize that off-farm work means less time devoted to farm work, not more hours worked. There is only 24 hours in each day and farmers who continually work overtime increase the chances of being in a serious or fatal farm accident.

The last alternative is to continue farming fulltime. Although this may be the most difficult option, it can be accomplished by maximizing efficiency, diversifying or selling products directly to consumers.

The producer may also want to consider increasing the operation's size. This may be more effective if he first improves efficiency.

None of these options are costless to the producer, nor will it be costless for Extension to move to a position where educational programs can be offered to small scale producers. Yet, as potential Extension clientele, these producers can not be ignored.

At the other end of the spectrum, are the large scale producers who must continue to grow, simply as a matter of semantics, as the number of small scale continues to grow. Large scale producers are beginning to perform the Extension mission "in-house" as they hire their own specialists and agents. To these producers, Extension may become only one of many sources of information.



## USING VIDEO TAPES TO TEACH FARM MANAGEMENT

Getting farm management and record keeping information to producers is critical, but is a real challenge for Extension staff. Information must be presented clearly and concisely because producers do not have, or will not, take time to spend in long meetings or workshops. Extension staff must find ways to educate producers within the time and entertainment constraints imposed on them by their clientele.

Video tapes offer extension a way to overcome this challenge in farm management programs. Programs that present facts, rather than teaching skills, benefit the most by video.

Video has several advantages over other educational aids. Viewers remember more information if they can see an actual picture, rather than creating a mental one. Video programs are more structured so extension programs are often shorter and more interesting.

Producers are used to dealing with television as an entertainment medium; they must be taught how to use it as an educational tool. To do this, remind clientele during workshops to stop the tape, roll it back and repeat material they do not understand, and to do the exercises to test their knowledge.

Adults go to educational programs because they want to improve their management skills, job performance or lifestyle. There are several things that must be remembered when using video in programs to help the participants achieve their goals.

Adults learn better if they know what is expected from them. Workshop participants will need to be told what the goals and objectives of each particular program or segment are. Program

participants need to know what they are supposed to do and how to do it for the workshop to be successful.

Active participation will help adults retain information. Simply asking them questions during the presentation can help participants retain information. Show new technology as it is described.

It is important that the workshop has realistic problems and role models that the participants can identify with. Perhaps, a respected local producer explaining why he takes the time to analyze his operation once a year and make long term plans would be beneficial.

Using video in the program works best when new information is presented a little at a time and with breaks in between so that it is absorbed. Workshop leaders need to try to base new ideas on things the participants are familiar with. They need to let participants know where they are in the learning process as the workshop progresses.

Workshop leaders need to remember that a little variety goes a long way. The audience is attending to learn and to feel like they are actually learning new things. Too much variety may make some participants feel like the program has wandered off course and that they are wasting their time.

The first step in planning how to fit video into workshops and programs is to know the audience. Video instructors need to think about who is expected at the program; their ages, sex, background and why they are coming.

The second step is list the goals and objectives for each unit or lesson. These goals can be used to promote the program

to perspective participants. The objectives should list exactly what the participant will be able to do after the unit.

County extension staff must have the freedom to adapt programs from the state extension office to fit their local program. Change the outline by adding or deleting items to match the goals and the needs of the participants.

The Business Management in Agriculture video series is available to help extension agents teach producers how to produce financial statements and improve management skills.

The program is a two-part series of video tapes that are 25 to 45 minutes long. A workbook is provided to allow the producers to take notes and to practice skills. This helps them retain the information longer.

Some of BMA's specific goals are to help farm families identify goals, develop management plans, prepare and use financial statements, evaluate proposed business changes through budgeting and improve lender relations.

BMA was funded by the Cooperative Extension Service and Farm Credit Service.

## A LOOK AT POSSIBLE CHANGES IN AGRICULTURAL FINANCING

It appears that the worst of the 1985 Farm Crisis is over, at least for producers; land prices are up, exports are up and net farm income was at a record high last year.

Unfortunately, not all sectors of the agricultural economy are doing this well. Farm lenders in particular still have some problems to work through. These problems will be solved by substantial changes in agricultural financing.

One trend already emerging is for lenders and other input suppliers to move out of rural communities and into larger service centers. This is happening in very rural areas as the local economy slows and main street business environments worsen.

Difficulties in the farm lending sector, deregulation of banks and financial markets, the 1987 Farm Credit Act and new technology will determine what changes are actually made.

Extension staff and community-oriented farm lenders are facing a challenge to help producers use this technology to remain competitive.

The Extension Service will also need to help producers improve record keeping methods, make the transition out of farming and know their rights as borrowers.

The Business Management in Agriculture tapes and the South Dakota State University Cooperative Extension Service has two new record books that can be used to teach better record keeping skills. Producers are resistant to change so extension staff must be careful not to alienate any clientele. Producers need to think of extension as helping them, not forcing them to change.

One change in agricultural credit will probably be an improvement in evaluating and servicing farm loans. This will require better producer records to base long-term projections and breakeven analysis on.

Lenders will increase the emphasis on cash flow and profitability as they get away from the mindset of balance sheet, collateral lending. Thus, producers need to increase their understanding of these concepts and how to use them.

Another change will be in leverage and managing interest rate risk. Lenders will get better at assessing borrower risk and will start pricing loans according to this risk. Producers will need to understand their creditworthiness and know how to demonstrate it when they go in to apply for a loan.

Lenders will also start to separate large commercial farms from the smaller part time farms for service and loan terms. Smaller farms will be treated as consumer loans with nonfarm income being the most important factor in making a loan decision.

Extension will need to help small and mid-size commercial farms acquire current technology at competitive prices and evaluate options. The Cooperative Extension Service and lenders both need to aid some of these farmers in the transition out of agriculture.

Another change is that lenders will offer more farm credit related services. These may include rural housing loans, management consulting, leasing, mutual funds and point-of-sale credit programs. These extra services will come as farm lenders try to remain competitive with nonbank, nontraditional organizations.

The most visible changes may occur in the Cooperative Farm Credit System. The 1980s recession and the 1987 Farm Credit Act have mandated structural changes for the system.

Combining offices and districts will reduce the system's administrative overhead. It will also have to change its loan pricing from average cost to marginal cost to protect itself from interest rate risk.

The 1987 Farm Credit Act put a new emphasis on borrower's rights and some of these will be adopted by other lenders. This will increase both FCS's and FmHA's costs.

These rights include restructuring of loans if it is cheaper than foreclosure, disclosing loan terms and reasons for changes in loan status and restrictions on foreclosure.

The act also allowed for a secondary market for farm mortgage loans. This market will let banks originate farm loans and resell them through the market, while collecting a small fee from the loan.

Although the secondary market will probably not overtake the Federal Land Banks, agricultural banks will use it to provide complete farm credit services and reduce the risk of losing customers to the Federal Land Banks.

Other changes that could occur in the agricultural finance arena and that Extension will need to be prepared for are more complex financial and business arrangements, changes in credit delivery systems and continuing deregulation and interstate banking.

## EVALUATING ALTERNATIVE ENTERPRISES WITH THE FARM IN MIND

Low farm income, financial difficulty and unhappiness with traditional enterprises have increased interest in alternative enterprises during the 1980s. Extension has responded with some programming and material production in the area. However, alternative enterprises are not a dead issue.

An alternative enterprise is anything that is not being produced in the current operation. It can be a traditional enterprise in a nontraditional area, or a unique enterprise with limited markets.

Producers may gain a competitive advantage with an alternative enterprise if they are close to a large market, or if they can locate a market no one else can produce for. They probably will not be able to gain a comparative advantage in that market or a major share of the national market.

Competitive advantages come from being able to produce a product at a lower cost than anyone else. Comparative advantages result when one producer or area can produce a commodity relatively more efficiently than another, and explain why Farmer A had a net profit and Farmer B had a net loss when they received the same price. Comparative advantages also explain why Kansas produces wheat and Illinois raises corn and soybeans.

Sometimes producers jump into alternative enterprises because they think high prices equal high profits, or a rumored price is the average price or diversification always reduces risk. Decisions based on these fallacies can be disastrous for producers; startup costs may never be recovered and management in other areas may suffer.

Producers need help to evaluate risk, required resources and marketing opportunities associated with the alternative. Thus, the role of extension staff will be defined as the problem is identified. Programs about marketing and farm management will help producers base their decisions on adequate information, rather than hearsay.

Current information about markets and marketing is critical in evaluating potential alternatives. Most alternatives focus on producing raw products and need adequate processing, assembly and distribution facilities to be utilized. Extension staff should help producers find this information.

Before an alternative enterprise is chosen, the producer needs to carefully look at his current operation in terms of available resources and other enterprises. The alternative will have to fit into the existing setup to be effective.

Producers also need to understand the kind and amount of risk the alternative has. Diversification can actually increase price and income risk if the alternative's market is variable. Examining an alternative enterprise requires programming aimed at whole farm planning. The South Dakota State University Cooperative Extension Service's Planning for Tomorrow-Today program can be used to meet these needs.

The most important thing for producers to remember is that alternative enterprises will not save a poorly managed operation. Producers who successfully adapt new enterprises are those that have above average management skills. Thus, as extension clientele, they would be an above-average audience and programs



would have to be upgraded to meet their needs.

There are several tools available to help producers evaluate and plan for alternative enterprises. Producers need to be aware of these and how to use them.

One tool is the enterprise budget that shows expected annual costs and returns. It is useful, but does not show how the alternative fits into the current operation or how to make the change.

Another tool is the partial budget that is used to predict how minor changes will affect the operation. Net changes in profitability and cash flow from the alternative should be projected in it.

Extension staff can use the Business Management in Agriculture (BMA) tape in cluster groups to teach producers how to develop and use a partial budget.

The whole farm budget analyzes the effects of major changes in the operation. Income, expenses and returns for the current operation in a given year should be compared against the alternative's projected levels.

This budget forces the producer to think about how the alternative will affect the current operation. And if it will actually improve profitability and lower risk. A BMA tape is available to help producers prepare and use a whole farm budget. Also available is the FINLRB segment of FINPACK, an integral part of the Planning for Tomorrow-Today program.

The last tool is transition planning. It is developed after the producer has determined that the alternative enterprise

is both both feasible and compatible with the current operation.

It consists of monthly cash flow projections and ways to implement the new enterprise. It should also tell the producer if he will need more operating credit and if he will be able to meet his debt obligations. FINPACK programs are available to aid the producer and his local extension agent in assessing alternative enterprises during the phase.

## BUDGETING ENTERPRISES AND RISK ANALYSIS

As the agricultural economy changes producers are changing their decision making strategies and the Cooperative Extension Service is updating the way it teaches farm planning.

It is no longer enough to merely teach producers how to increase productivity and efficiency. Today's producers need to know to identify and evaluate alternative income and risk management strategies.

The Budgeting Enterprises and Analysing Risk Program was developed by the University of Guelph in Ontario to meet this new need. The program allows producers to compare risk and economic profitability of each enterprise, as well as the whole farm, based on probabilities. B.E.A.R. is similar to Risk Rated Budgets developed in Oklahoma and Georgia.

Balance sheets and cash flow statements are not used in this program. Instead, risk rated budgets are used with partial enterprise and whole farm budgets.

The risk rated budgets are like normal budgets except that producers are able to use their own judgement about yields, prices and production costs. The producer decides what he thinks the expected, optimistic and pessimistic values will be.

The expected is what the producer is actually budgeting to have happen. It is used to project net revenues and profit margins.

The optimistic is the highest value the producer expects to see once every six years. The pessimistic is the opposite. These values are important to establish a range of outcomes the producer can expect two-thirds of the time.

The producer's values are fed into a computer program that uses the theory of normal distribution to calculate the chances of both breaking even and reaching a profit objective.

While not many situations exhibit a normally distributed risk probability, the concept of a normal distribution is understandable to most producers. Even for those that do not completely grasp the concept, it is starting point for a discussion on risk.

The program also shows the probability of income at different levels. This allows the producer to compare the relative risk levels of enterprises or the whole farm by computing the standard deviation of gross revenue or expected gross revenue.

B.E.A.R.'s other role is to quickly answer "what if" questions about production methods, enterprise size and marketing options. The program can be improved by adapting it to fit in with computerized financial statements, least cost ration planning or other enterprise analysis packages.

B.E.A.R. is just one part of the decision making process producers must go through. Producers must also accurately identify alternatives, decide on a strategy and keep good records to evaluate progress.

The Planning for Tomorrow-Today program can be used to accomplish the same objectives B.E.A.R. FINPACK can be run with three price and cost alternatives - a high, low and average. This means South Dakota State University Cooperative Extension staff does not need to learn new software or programs, just

recognize the flexibility of the program they are using.

Producers need to be aware that developing alternatives to their present operation does not necessarily mean considering completely new enterprises. It can be merely adjusting herd size or acreages. Thus, risk assessment will enter into all the management decisions producers make related to their operations.

## GEARING UP FOR 1990

Even though debate on the new farm bill does not officially begin for another two years, many people are already speculating about it.

There are three major directions the bill could take; extending the Food Security Act of 1985, decoupling and protectionism.

It is too early to determine which direction will be chosen. However, the 1985 Farm Bill will probably be extended.

Even if the next farm bill is only a slight revision of the current one, it could increase the movement towards more market oriented programs, or it could slow the movement down or possibly reverse it.

If the 1985 Farm Bill is extended, producers can expect target prices to continue to gradually decline and loan rates to remain below market prices.

Ten year projections from the Food and Agricultural Policy Research Institute indicate that target prices will equal market prices for most commodities by the mid 1990s.

This will decrease participation in annual acreage programs and government costs. However, net returns will also be reduced and Extension staff will be called upon to help producers prepare for this.

The second possibility of direction for the 1990 Farm Bill is to decouple domestic programs. Decoupling is a plan to financially assist farmers without affecting production, consumption, trade or prices.

There are two decoupling concepts. Full decoupling would remove distortions caused by the current programs by paying farmers regardless of acreage planted. This is the decoupling concept in the United States' GATT proposal.

The second is a more limited concept that focuses on removing trade distortions. Domestic price support programs that distort trade could be offset by reducing supply. Extension staff will need to be prepared to discuss alternatives with producers and commodity groups so that they make informed decisions.

The last possibility for the new bill is to increase protection of agriculture. This would reverse the current move towards market orientation and move the U.S. towards policies like the European Community and Japan.

This approach has been supported by some farmers when the farm economy is under stress. If adopted, producers could see mandatory supply controls and higher loan rates.

Several factors will determine which direction is chosen including the state of the farming economy, the GATT negotiations on agricultural policy and the new administration. Of these, the state of the farming economy will be the most influential.

The state of the farm economy leading up to, and at the time of the farm legislation is written is one of the most influential factors determining what provisions it contains.

The farm economy is not expected to be as favorable in 1990 as today. Declining target prices and low loan prices will reduce income and tighten cash flow conditions. Extension will be called upon to help maintain the competitive edge of U.S.

agriculture. Farm management specialists will be asked to help producers improve the efficiency of individual enterprises and whole operations.

Progress in the GATT negotiations would encourage the U.S. to move toward more market oriented programs and possibly decoupling. However, even lack of progress probably will not lead to increased protectionism.

The new administration is expected to have the least effect on the 1990 Farm Bill. Because the 1985 Farm Bill was a five-year bill, the new president will have an extra year to develop his proposal. However, Congress will still play the dominant role in deciding what direction is actually taken.



## EXTENSION'S ROLE IN CONSERVATION COMPLIANCE

The 1985 Farm Bill included a provision to requiring producers to develop conservation plans for all highly erodible land by 1990. These plans must be implemented by 1995.

Conservation Compliance means that farmers have to reduce soil erosion to about 20 tons per acre on 10 percent of the most highly erodible land.

Farm profits will be affected as these conservation plans are implemented during the early 1990s. The Cooperative Extension Service must be prepared to help producers with financial management and to identify needed research areas.

Two problems will arise as the conservation plans are put into use. One is the actual selection of a workable plan for each individual operation, and the other is how to evaluate the plan's profitability.

A workable conservation plan should accomplish several things. It should reduce erosion while allowing the producer to plant as much, and as many, profitable crops as possible.

The plan should require the least amount of change in the producer's present tillage system to keep compliance costs at a minimum. Also, it should protect present feed grain and wheat bases. Cross compliance requires producers to stay within their base acreages on all crops or they will be disqualified from receiving program benefits.

Economic theory should help producers determine the profitability of their conservation plans. Extension staff will need to be prepared in this area. Partial enterprise and total

farm budgets will help the producer compare different ways that land labor and capital can be used.

Using this information to adjust livestock enterprises to take advantage of crop production and other resources may improve profitability. Changing tillage practices from the conventional tillage systems to minimum or no till systems may reduce production costs.

There are several major concerns producers need to be aware of, and extension staff will be asked to help with, when developing their conservation plans during the next two years.

Long range management decisions are essential to actually implement the plans. These include selecting more rigid tillage systems and workable crop rotations to keep average soil loss per field within specifications.

Farm profit may decrease because of the shift from producing intensive, high profit crops to a three or four year rotation including small grain or meadow production. Extension will have to be prepared to help producers adjust to these lower profit levels.

Producers that have to make major adjustments in tillage practices or crop rotations should expect a short run drop in profits. Compliance will force these producers to purchase different equipment and make land improvements, which may be costly. the USDA estimated that it would cost producers \$25 to \$60 per acre to meet specifications.

However, producers should see a long term increase in profitability because of Conservation Compliance. This increase will come as producers learn more about soil types and redefine

field boundaries to use the most productive land to grow the most profitable crops.

And finally, producers need to consider any leasing arrangements. Rented land may have to be given up if the landowner is not willing to finance land improvements. The producer can be disqualified from government benefits if the landowner does not comply with the program requirements.

Extension's role during the transition will assist producers plan changes and then adjust to them. Workshops and working jointly with the Soil Conservation System appear to be the best methods of providing this assistance.

## ADAPTING TO BIOTECHNOLOGY

Biotechnology is one of the most controversial topics in the agricultural sector. As it becomes more common it will affect productivity growth, farm size and structure, and regional competitiveness.

Extension economists and producers need to prepare themselves for the changes that are coming. The first will probably come from animal growth hormones followed by direct modification of plants and animals.

The Extension Service will need to help producers prepare by teaching them how to be more competitive with larger scale businesses.

Extension staff will need to develop educational programs that force producers to look at their attitudes towards management, as well as improving management skills and increasing efficiency.

These are crucial because productivity and profitability differences between top and average operations are increasing. Average operations are the extension service's primary clientele.

Biotechnology will also affect regional competitiveness. Regions that are the least prepared to use adopt biotechnologies will be hurt by them.

Operations that are well managed and very productive will use the new products more efficiently. This could cause a major down sizing of the dairy industries in the Lakes states and Northeast.

Another possible change is a decrease in the amount of required agricultural land. Using growth hormones in dairy, hogs,

beef and chickens could reduce national agricultural acreage needs from 3.4 to 10 million acres.

Extension staff will need to work with producers to implement the following business management practices to cope with the changes. Producers need to gain more managerial and entrepreneurial skills. They should consider taking business courses at local colleges or even getting an Masters of Business Administration degree.

They will need management skills beyond making production decisions. Top managers will make long range plans, capitalize on market trends, be cost conscious and manage farm workers.

Increasing the size of the farm or ranch should also be considered. Larger operations will use the biotechnologies more efficiently than the smaller or part time operations.

Most biotechnologies do not change production costs between different sized farms because they do not require a capital investment. This is unlike some technological changes in the past that had large up-front costs, such as bulk tanks or automatic feeding systems.

However, special production facilities, information systems or safety controls may be needed to successfully use the biotechnologies. Larger firms will be better able to acquire the needed capital to purchase this additional equipment.

Extension can help producers adapt to these changes by helping them strengthen the operation's financial health now. This will provide capital to purchase any special equipment, and to ride out a potential recession caused by the new technology.

Financial health is the operation's ability to meet its debts, while paying current expenses and maintaining investment. Minimizing production costs and getting the best financing terms available will improve it.

The new biotechnologies will put added pressure on producers with outdated facilities or poor soil. They need to look at their land and facilities, and make any needed improvements.

Successful adoption of biotechnologies will require good financial health and high quality resources. The South Dakota State University Cooperative Extension Service has been intensively working in this area for the past three years.

## ARE THE GOOD TIMES HERE TO STAY?

The American agricultural sector appears to be finally pulling out of one of its worst recessions in history. The trouble is no one knows how long it will last.

The sector has two problems to solve before recovery can be completed. One problem is the excessive debt load carried by approximately one-third of the producers, the other is overproduction.

The debt load is short term and will probably be solved within two or three years. The other is a long term problem that will require a global solution.

Farmers with debt-to-asset ratios below 40 percent should be able to repay their debts. In 1987 almost 22 percent of the nation's farmers had debt-to-asset ratios above 40 percent and held more than 67 percent of the farm debt.

Liquidation of collateral and loan restructuring will continue in the next few years because economically unstable farmers are still holding a high percentage of assets and debt.

Many producers have been able to reduce their debt loads over the last few years which has helped the Farm Credit System and Farmers Home Administration start to recover. However, some agricultural lenders feel the debt reduction has been too fast. The push to reduce debt has left producers in a better solvency position, but with decreased liquidity.

After the good year they had in 1987, producers had high hopes for 1988. Many paid off debts and purchased new equipment or machinery, but were still forced to borrow operating capital.

Because of dry conditions early in the growing season, actual farm income may be much lower than producers projected this year. If this happens, producers may be forced to refinance their current short term debts which could start the financial stress cycle of the early 1980s over again.

The Cooperative Extension Service will need to develop programs to inform producers about the actual debt costs, self insurance costs, and debt management.

It is critical that producers learn that collateral based borrowing is no longer feasible. Lenders will be looking at cash flow, ability to repay the loan and demonstrated profitability to determine creditworthiness. Money is available, if the producer can maintain his creditworthiness.

Extension staff will need to help producers improve borrower-lender relations, cut production costs, and make long term plans and budgets. It may also become more involved with the mediation process.

Overproduction is a worldwide problem. Agricultural products have an inelastic demand which means that a small increase in price results in large reductions in the quantity demanded. The weather and the fact that farmers are price takers also make supply difficult to control.

The United States has three options to deal with overproduction; increase exports, increase demand in other places or restrict land and capital.

If demand does not substantially increase through exports than the only other answer to the huge surplus stocks is to decrease production. That means reducing the amount of land and



capital currently committed to agricultural production.

Land can be removed from production by paying farmers to idle it or letting market prices drop to the point that land is forced out of use. Extension staff will have to help producers cope with decreased land use by developing other income sources and nonagricultural uses for the idled land.

Tax shelters and public works projects encourage capital investments. Removing these from the agricultural sector will decrease the amount of capital available.

The federal budget deficit has had an adverse affect on world financial markets. Tax increases and budget cuts are necessary to correct the situation. Either action will affect producers and extension must be in a position to help.

Farm price and income support programs will proably be among the federal programs cut. The extent and nature of these cuts will determine how the agricultural sector pulls out of the farm debt crisis and how it adjusts to the overproduction problem.

## CLOSING OBSERVATIONS

These short summarizations and observations only serve to point out the need for additional training of current staff and additional staff at the state level to meet these emerging demands. To accomplish this, more resources and dollars will have to be committed to this area.

Budget dollars need to be redirected to extension farm management training. Considering the multiplier effect, redirecting dollars has the potential to reap benefits in excess of the hardships caused by slight budget reductions in other areas at the national, state and university levels.